

Inside (Helena,
351.826 Mont.)
C18ins Inside VOL 2 #3
MAY-JUNE 1987

STATE DOCUMENTS COLLECTION

DEC 21 1988

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Volume 2 Number 3
May - June 1987

Inside

PUBLISHED BY THE MONTANA DEPARTMENT OF COMMERCE

GOVERNOR SIGNS BILL

Montana promotion budget boosted

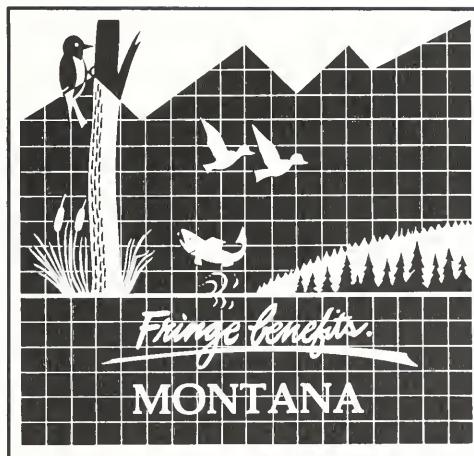
On April 27 Governor Ted Schwinden signed into law a 4 percent tax on hotel, motel and campground accommodations. This action quadruples the budget of Montana's tourism office, boosting tourism promotion funds from approximately \$1.2 million to \$4.8 million.

Prior to the legislative change, Montana was an "also-ran" in the highly competitive game of attracting tourists, with a budget that ranked 49th in the nation. "The overall picture is that we're entering the big leagues, instead of playing in the minors," said John Wilson, administrator of the state's Montana Promotion Division.

In October, Governor Schwinden came out in support of the bed tax, along with the support of the Montana Innkeepers Association. Subsequently, Representative Cal Winslow, R-Billings, introduced HB 84 to the 50th Legislature. Some legislative observers thought the proposal was in trouble when alternative proposals, including a sales tax, were introduced. Wilson, however, was confident the bill would pass and requested no general fund money from the House Appropriations Committee. Ultimately, the Legislature looked favorably on HB 84 as a positive economic growth tool. The House voted in favor 87 to 12 with the Senate concurring 34 to 16.

HB 84 places a 4 percent tax on the fees charged for rooms in hotels, motels and campgrounds. "The tax is on the tourists and travelers, and not the hotels themselves," said Wilson. He added that the tax will not make Montana accommodation rates less competitive because most states already have a bed tax.

PLEASE RETURN



The Montana Promotion Division will receive its entire budget from the tax fund. The division will retain about 75 percent of the money, with the bulk of the remaining 25 percent being distributed to Montana's six tourism regions for local promotion and a small percentage going to the university system for travel research and to the Montana Historical Society for roadside sign maintenance.

For the first time Montana will be able to launch an aggressive tourism campaign in major metropolitan markets like Denver, Minneapolis, Seattle and Los Angeles. The division will also create a program to attract regional and national conventions to Montana, increase its promotional budget to attract more movie companies, go head-to-head with Utah and Colorado in the winter sports arena

and encourage more publicity about Montana in magazines and publications.

With this new revenue, Montana anticipates that tourism growth rates will increase from 2.5 percent per year to 4 percent to 5 percent per year by 1990. "The travel industry in Montana has taken the bull by the horns and is going to be competitive on a national and international scale," said Wilson.



3 0864 1005 0735 2

Inside Commerce is published six times a year as an informational and educational tool for Montanans interested in public policy implementation through the Department of Commerce.

Keith L. Colbo, Director
Sandy Courtnage, Editor
Alene Gorecki, Production Mgr.

Jerilee Brooks, Assistant

Newsletter contributors:

Business Assistance Division

Gene Marcille
 Jayne Risken

Business Regulation Division

Steve Meloy

Local Government Assistance Division

Dave Cole
 Margaret Clark

Montana Promotion Division

Gail Brockbank
 Steve Shimek
 John Wilson

Montana Economic Development Board

Bob Pancich

Office of Economic Analysis

Phil Brooks

Montana Science & Technology Alliance

Elinor Edmunds
 Sam Hubbard

No permission is required to excerpt or reprint, but we would appreciate credit for the article and a copy of the publication.

Perspectives•

Keith Colbo is director of the Department of Commerce. Prior to this position he was a member for four years of the Northwest Power Planning Council. Colbo has held Montana state government administrative positions for the past 20 years and has served under three governors.



Most of this newsletter is devoted to legislative changes and additions affecting the department. You will find details about the Montana Science and Technology Alliance bonding authority, the Board of Investments and the Montana Economic Development Board merger, the Travel Promotion Division's funding changes as well as a variety of business regulation changes.

Now that the dust of the past legislative session has cleared, I thought I'd also share some of the 50th Legislature's actions affecting business and economic development.

A number of actions to ease liability insurance problems, for example, were enacted: punitive damage awards are now prohibited in contract cases unless fraud or malice can be proven; a judge must review any jury-awarded punitive damages; and revision of "joint and several liability," allows a party who is less than 50 percent at fault for an accident to be sued only for an amount equal to his share of the liability. In addition, under the "collateral source rule," the size of a jury award is reduced if the victim has already received other damages for the same injury; the statute of limitations for medical malpractice suits has been reduced; judges are allowed to order periodic, rather than lump sum, payments; and directors and officers of non-profit organizations are now protected from most liability suits.

Revision in the workers' compensation system was also a high priority for both legislative observers and participants. SB 315, with its "declaration of public policy," provides new direction for the administration of the law as well as providing new definitions of covered injuries, eliminating lump-sum payments, more stringently regulating attorneys' fees, setting new compensation schedules, eliminating benefit payments to persons while they are incarcerated and providing for mandatory mediation in disputes prior to being brought before the workers' compensation court. These and other provisions are intended to bring workers' compensation costs under control, although employers shouldn't expect an immediate reduction in insurance rates.

The legislature also took some well publicized tax actions including reducing the coal severance tax and approving a "water's edge" unitary combination method, which should eliminate the "red flag" that Montana's previous worldwide unitary combination method raised for foreign or multi-national corporations.

These and other changes should combine to influence positively Montana's business community and economic development climate for the next several years.

On yet another economic front, state government, the private sector and the university system continue cooperating on several joint ventures. Two task forces appointed by the governor are currently working on facility siting proposals: the Superconducting Super Collider (SSC) project and the U S WEST research facility. I urge you to follow these developments through the coming months—both project proposals must be completed by mid-summer.

One final announcement concerns the *INSIDE* newsletter. Beginning this coming fiscal year, the newsletter will be published quarterly instead of the current six times a year. I am confident, however, that we can still bring you timely public policy information relevant to the Department of Commerce and the state's economy.

As always, comments and suggestions are welcome.

Keith L. Colbo

In this issue

Merger

"Bed" Tax Details

Video Games

Low Income Housing

LOW-INCOME RENTAL HOUSING INCENTIVES

\$3 million in tax credits available

The Montana Board of Housing has been designated as the administering agency of a new federal Low Income Housing Tax Credit Program.

The program was established by Congress through the Tax Reform Act of 1986, and is intended to help maintain the existing level and to stimulate the production of low-income rental housing. Approximately \$3 million in federal tax credits will be offered to developers and owners of low-income housing in Montana over the next three years.

To be eligible for the tax credit, developers and owners must set aside and rent a minimum of 40 percent of their rental units in the project to persons or families whose annual income (adjusted for family size) is at or below 50 percent of the area median income. Additionally, the units set aside are required to be rent restricted.

Through the credit, developers and owners of qualified housing will receive a tax credit every year for 10 years, based on the number of housing units provided to qualified low-income individuals and families.

To assist the board in determining policy, program implementation procedures and to structure the program to provide the maximum benefit to low-income people in the state, the board has announced a public comment period ending June 26, 1987. All comments should be directed to the Board of Housing office, 2001 Eleventh Avenue, Helena, 59620.

CDBG TRAINING

The Local Government Assistance Division has scheduled the following training sessions for persons interested in applying for funds from the 1987 Community Development Block Grant (CDBG) program.

June 8—SHELBY
Marias River Electric Co-op
West Highway 2

June 10—POLSON
Lake County Courthouse
106 4th Avenue East

June 12—LIVINGSTON
Yellowstone Inn
1515 West Park

June 15—GLASGOW
Cottonwood Inn
Highway 2 East

June 17—MILES CITY
Elks Lodge
619 Pleasant Street

A copy of the final application guidelines will be mailed early in June to all cities, towns, counties and persons who have asked to be carried on the CDBG mailing list.

Applications for the fall general competition are due September 18, 1987, and deadlines for the separate winter and spring economic development competitions are February 19, 1988, and June 17, 1988, respectively.

covered during the sessions was an explanation of the county land planning funds; a discussion of new and innovative techniques in planning, and a summary of planning-related bills passed by the 1987 Legislature. Included in the session was a demonstration of an on-site inspection for water and sewer systems.

The workshops were held in response to requests from local officials and were targeted to planning board members, zoning commission members, board of adjustment members, members of the governing body, new planners and new sanitarians.

PLANNING WORKSHOPS

The department, in conjunction with the Department of Health and Environmental Sciences, in early June held two planning workshops, one each in Lewistown and Glendive.

Covered during the workshops were such topics as the roles and responsibilities of different actors in the planning process; an overview of comprehensive planning, zoning and capital improvements planning, and an overview of the Montana Subdivision and Platting Act and the Montana Sanitation in Subdivisions Act, with special emphasis on how these laws are used in rural communities. Also



All workshops are scheduled to last from 10 a.m. until 4 p.m.

LEGISLATION IMPACTS ALLIANCE

During the recent legislative session, several pieces of legislation were enacted that will positively affect the future of the Montana Science and Technology Alliance and Montana's business climate.

First, House Bill 700, the alliance's seed capital bonding bill, received the required three-quarters vote of both houses of the Legislature. This bill authorizes the alliance to issue up to \$16 million in taxable bonds over the next six years with the proceeds being used for direct investments in seed capital stage companies that are actively moving toward commercialization and for investment in up to three in-state venture capital companies that, in turn, would invest directly in individual projects.

The bonds will carry a deferred debt service feature allowing adequate time for earnings on the investments to be realized and consequently covering the debt service on the bonds. To make the bonds investment grade, the Coal Tax Trust Fund will be used as security, meaning that if the investment earnings are not adequate to pay the debt service when due, the trust will be called upon to subsidize those payments.

Venture capital investors usually expect three or four investments out of every 10 to fail, another three or four to break even, and the final two or three to perform extremely well, usually well enough to offset the losses from the failures. An average yield of about 13 percent on alliance investments would produce adequate funds to retire the bonds without help from the trust. If additional earnings are realized, they will be deposited in the trust fund.

Of the \$16 million to be raised over the next three bienniums through bond sales, \$12 million will be directly managed by the alliance, \$3 million will be placed with private capital companies (with at least a dollar-for-dollar match from private sources required), and \$1 million will be used for costs of issuance and administrative expenses.

This program will accomplish two critical economic development objectives. First, it will provide a significant

pool of seed or risk capital for investment in early stage entrepreneurial companies in Montana. Second, it will significantly help to stimulate the formation of private sector venture capital.

The second important piece of legislation enacted is Senate Bill 22, which amended the Montana Capital Companies Act. The amended act now entitles an individual, small business



corporation partnership or corporate taxpayer who makes an investment in a Montana capital company to receive a tax credit equal to 50 percent of the investment, an increase from the earlier limit of 25 percent. This tax credit will be available for the next four years and will affect the Montana economy in two ways. First, it will stimulate the formation of additional Montana capital companies. Currently only one such company operates in Montana. Second, the investments in these capital companies will create a larger available investment pool that will in turn be available for investment in early stage companies throughout Montana.

The third piece of legislation of strong interest to the alliance is House Bill 449, which encourages the Montana Board of Investments to invest up to 3 percent of the state retirement funds with venture capital companies. It further urges the Board of Investments to give preference to venture funds that demonstrate an interest in investing in Montana projects.

The investment of pension funds in venture capital companies is an investment option that is increasingly popular with pension fund managers in both the public and private sectors. Approximately one-third of the \$24 billion under management by venture funds in this country is provided by public and private pension funds. At least 21 other states are active venture investors including Washington,

Oregon, Nevada, Utah, Colorado, Iowa and Wisconsin among others. In addition, investment of Montana dollars in these venture capital companies would create a powerful incentive for the companies to consider seriously Montana projects for investment. This effort could help fill a huge gap in available investment capital for early state entrepreneurial companies in Montana.

Finally, the legislature substantially increased the alliance's spending authority for research and development and technology transfer activities. During the next biennium, \$2.75 million will be available for such efforts as the creation of advanced technology centers, the development of business development assistance services, applied research projects and technology transfer efforts. Appropriated from the Alternative Energy account, this source of funds will enable the alliance to continue to pursue aggressively advanced technology research and development activities in Montana.

MERGER

MEDB and Board of Investments

The Montana Economic Development Board and the Board of Investments will become one entity on July 1, 1987. The new Board of Investments, the result of Senate Bill 298, will become part of the Department of Commerce. It is expected that combining the expertise of both boards will enhance the investment and economic development efforts in Montana and that the new board will be able to consider larger and more complex lending requests. This consolidation will also allow the public to make one investment stop rather than talking to two different agencies. The board will continue to manage the in-state investment fund, which is funded with 25 percent of the coal trust monies.

The new Board of Investments consists of nine members: one from the Public Employees' Retirement Board, one from the Teacher's Retirement Board and the remaining seven representing the financial community, small business, agriculture and labor to provide a balance of professional expertise and public interest and accountability. The board, which was appointed by

the in-state investment fund. It is estimated that in fiscal 1987 the in-state investment fund will receive approximately \$9.3 million for investment, in fiscal 1988 it will receive \$7 million, and in fiscal 1989 it is expected to increase to \$7.8 million.

The in-state investment fund is restricted to loaning no more than 10 percent of the previous year's allocation of funds to any individual borrower or company. In the past the Montana Economic Development Board set lending limits between \$1 million and \$1.1 million. If this rule is maintained, the effect of HB 252 will be to decrease the upper limit of loans from about \$1 million to approximately \$700,000.

SB 228 reduces the redeposit of 15 percent of interest earnings into the permanent trust fund to 2 percent. For the 1989 biennium an additional \$996,600 will be deposited into the general fund. Redeposit of the 15 percent interest into the Montana in-state investment fund will resume in fiscal 1990.

SB 263 removes the public hearing requirement for projects financed under the Montana Economic Development Bond Act of 1983 if the interest on these bonds is subject to federal income taxes. The bill is effective immediately. The rationale behind this move is that the interest on these bonds is taxed and, therefore, the bonds typically sell at market rates, eliminating the need for a public hearing.

With the new federal tax law that took effect January 1, 1987, many industrial development financing options were eliminated leaving only manufacturing projects, or 501C(3), or non-profit corporations, eligible for tax-exempt financing. Consequently, the Montana Economic Development Board is currently developing a taxable bond program to finance borrowers on a long-term, fixed-rate basis.

SB 110 amends the Montana Investment Act to allow the Board of Investments to purchase debentures from Montana capital companies, which will help these compa-

ies provide equity capital to businesses. This bill becomes effective October 1, 1987, and restricts the purchase of debentures to 10 percent of the in-state investment fund. The total amount currently available for debentures is \$4 million. No Montana capital company may sell debentures to the board in excess of its aggregate net worth or more than \$1 million. A debenture is defined under the board's rules as a bond note or other evidence of indebtedness. Typically debentures are unsecured.

It is expected that these new laws will help streamline the programs for the board and should provide positive results in the future.



the governor April 24, consists of Joe Reber, chair, Helena; Bob Battista, Great Falls; Steve Brown, Helena; Jay William Kearns, Townsend; Pat LaTourelle, Whitefish; Joel Long, Billings; W.E. "Buster" Schreiber, Whitefish; Wilbur Scott, Great Falls, and Fritz Tossberg, Hamilton. David Lewis, former director of the Department of SRS, was asked by the governor to serve as the board's executive director. He begins his duties June 1.

Several newly enacted laws will affect the activities of the board. HB 252 permanently reduce the coal severance tax. Consequently, deposits to the trust will be lowered accordingly resulting in fewer dollars flowing into

BUSINESS REGULATION DIVISION

Duties expanded

The 50th Legislature expanded the duties and responsibility of the Business Regulation Division with the passage of 31 pieces of legislation. Some of the division's changes and additions are highlighted below:

Licensing

The licensing of outfitters and guides has been moved from the Department of Fish, Wildlife and Parks to the Department of Commerce.



In addition, the division has been given regulatory duties and the name has been changed from the Montana Outfitters Council to the Board of Outfitters. All board members will be

appointed by the governor with five members being licensed outfitters, one an employee of the Department of Fish, Wildlife and Parks and one a public member. In addition to establishing standards for professionals, the board will adopt rules and administer the laws affecting outfitters and guides.

Senate Bill 341 revises the Employment Agency Act by transferring regulation of private employment agencies to the department and it is now responsible for handling all complaints against employment agencies. This function is assigned to the Professional and Occupational Licensing Bureau and rules are being drafted.

Other boards affected by new legislation include those regulating psychologists, pharmacists, dentists, medical examiners, nurses, private investigators, physical therapists, optometrists and realtors.

Tramways

The Tramway Advisory Council has been moved from the Department of Administration, Architecture and Engineering Division, to the Department of Commerce. The council, comprised of seven members, meets three times a year and regulates all ski lifts in Montana.

Horse racing

The Legislature gave the Board of Horse Racing the authority to regulate the simulcast of horse races of national interest. This change enables tracks to increase their handles (the total amount of money bet on a race) and revenues by 20 percent to 25 percent. The first simulcast race was the Kentucky Derby, which proved very successful as it increased the attendance and handle in Helena dramatically.

MONTANA LOTTERY

News Notes

Lottery decisions are occurring at a rapid pace these days in order to offer the first game as scheduled on or before July 1. The following list highlights a few recent activities:

- Tickets: 14.7 million lottery tickets arrived in a sealed truck at the lottery headquarters in Helena.

Lottery Director Diana Dowling and John Onstad, director of security, accompanied the law enforcement escort as the shipment entered the city. A guard is now on duty evenings and weekends to ensure ticket security.

• Staff: All lottery positions have now been advertised. Many key positions have already been filled and interviews are continuing with most positions being filled by June 1.

The lottery has received an average of 100 applications for each of the 35 positions available. Dowling reports that almost 1,500 applications were received for the eight field marketing representative positions alone.

The lottery is organized into three divisions: Marketing, Nancy Goodspeed, director; Operations, Gerald LaChere, director, and Security, John Onstad, director. In addition, marketing reps have been hired in eight locations throughout the state including Wolf Point, Miles City, Billings, Bozeman, Great Falls, Helena/Butte, Missoula and Kalispell.

• Advertising: Sage Advertising of Helena and Billings was recently selected as the advertising and public relations agency for the lottery. The first agency task is to prepare a multi-media advertising campaign and provide public relations support for the first instant lottery game.

VIDEO GAMING

The 50th Legislature transferred the regulation of video gaming devices to the Department of Commerce from the Department of Revenue. Along with that transfer came some licensing changes that are effective July 1, 1987.

- video draw poker machine annual license fees were reduced from \$1,500 to \$100 per machine.
- video keno and video bingo machines must now be licensed by the state—the annual license fee is \$100 per machine.
- manufacturers and distributors of video draw poker machines must now be licensed by the state—the annual license fee is \$1,000.
- a net income tax of 15 percent is now required on all video draw poker and video keno/bingo machines. The tax, with accompanying reports, is due quarterly.

For specific licensing requirements or for application forms contact the Video Gaming Control Bureau at 1219 8th Avenue, Helena, 59620 or call 406/444-3525.

MORTGAGE CREDIT CERTIFICATE

Board of Housing offers new program

A new financing tool is being offered by the Board of Housing that may help you buy or build a home. The Mortgage Credit Certificate Program (MCC) will benefit Montana homebuyers by reducing their federal tax liability or by providing more disposable income to make their mortgage payment lower. In conjunction with the lending and real estate community, the program will be offered to the general public in July 1987.



The Board of Housing will issue MCCs to qualified borrowers at a uniform credit rate of 20 percent. With an MCC, a homebuyer may annually claim 20 percent of his mortgage interest paid as a direct federal tax credit. This credit provides a dollar-for-dollar reduction of the buyers' federal tax liability. The remaining mortgage interest continues to qualify as an itemized deduction.

Eligibility guidelines

In addition to a lender's traditional loan qualifications, prospective homebuyers must satisfy the following federal eligibility requirements:

- the residence may be a single family home, condominium, townhouse or manufactured housing unit;
- the purchaser must be a first time homebuyer (3-year rule) except for a residence located in a targeted area, which includes Blaine, Sanders, Silver Bow, Deer Lodge, Hill, Flathead, Missoula and Mineral counties and Great Falls and Wyoela.
- the residence must be owner-occupied;
- the purchase price limit for new and existing housing is \$75,000;
- the mortgage loan must be a new loan except for construction loans or other interim financing not to exceed 24 months;

- federally imposed income limits vary by area.

Application process

A participating lender will determine if you qualify for an MCC at the time you apply for any type of mortgage loan. The interest rate and other loan terms will be established by the mortgage lender. A nonrefundable processing fee of \$150 will be charged when applying for the mortgage loan.

Once the required loan documents are submitted by the lender, the board will reserve an MCC for 180 days, which will become final at the closing date of a qualified mortgage loan. The MCC remains with the borrower for the life of the loan, as long as he occupies the residence for which the loan was obtained. MCCs may not be used in connection with a mortgage revenue bond program.

To obtain more information, contact a participating lender in your area or the Montana Board of Housing at 406/444-3040.

FINANCIAL OFFICER HIRED

Delrene A. Rasmussen, formerly a credit analyst with Norwest Bank, Helena, has been hired as a financial officer in the Business Assistance Division.

Rasmussen is the second financial officer in the division, a position that provides comprehensive technical assistance in financial analysis, business planning and loan packaging to individuals and firms contemplating business start-ups, refinancing, expanding or relocating to Montana. Rasmussen's job also includes analyzing business financial statements and projects and identifying their strengths and weaknesses, and she will help clients identify and analyze financial options and available resources. The financial officers also provide technical assistance, as necessary, to clients in their preparation of loan requests, utilizing available federal, state, local and private resources.

Rasmussen is a CPA who also holds a bachelor's degree in business administration from the University of Montana and a bachelor's degree in accounting from Carroll College, Helena.

ECONOMIC CONDITIONS IN MONTANA

A supplement to the 1986 report on economic conditions in Montana was recently completed by the Office of Economic Analysis. The analysis of basic sector employment (employment in sectors that sell a good or service outside an area and bring income into an area) in Montana's sub-state regions in the original report included only the seven most populated regions. This supplement analyzes basic employment for the other five regions, namely the Glasgow-Wolf Point, Glendive-Sidney, Havre, Lewistown and Miles City multi-county regions. As in the larger report, the years examined were 1979 and 1985, because the former was a peak year in the Montana economy and the latter was the most recent full year for which information on

regional employment was available at the time of publication.

For a copy of the supplement, contact the Office of Economic Analysis.



TRADE SHOW

Featuring Montana-made

A major trade show is scheduled in Butte, June 26-28, at the Civic Center. Sponsored by the Business Assistance Division, the U.S. Small Business Administration, and the Butte and Anaconda chambers of commerce, the trade show is the result of demand by Montana manufacturers, retailers and wholesalers.



"Made in Montana" products will be featured all three days—with June 26 set aside for buyers only. The last

two days of the show are open to the public. In-state trade shows primarily assist Montana manufacturers to develop and expand into new markets.

The "Made in Montana" display booth will also be on the road once again to garner national recognition for local products. This spring, Montana-made products were displayed in San Francisco, Portland, Chicago and Japan.

For more information about booth space for the Butte show or other trade show activity, contact the Business Assistance Division.



The Montana Products Directory will be published in August. All manufacturers should return their response cards to the Business Assistance Division as soon as possible. If we missed you in our survey, contact the division at 444-4372.

Can We Help You?

Keith L. Colbo, Director	444-3797
Business Assistance Division, Carol Daly, Administrator	444-3923
Business Regulation Division, W. James Kembel, Administrator	444-3737
Legal Unit and Consumer Affairs, Brinton Markle, Chief Counsel	444-4314
Local Government Assistance Division, Newell Anderson, Administrator	444-3757
Montana Board of Housing, Dick Kain, Administrator	444-3040
Montana Economic Development Board, Robert Pancich, Administrator	444-2090
Montana Health Facility Authority, Jack Nielson, Administrator	444-5435
Office of Economic Analysis, Steve Huntington, Administrator	444-3814
Montana Promotion Division, John Wilson, Administrator	444-2654
Montana Science and Technology Alliance, Samuel Hubbard, Executive Director	444-3707
Aeronautics Division, Michael Ferguson, Administrator	444-2506
Financial Division, Fred Flanders, Administrator	444-2091
Transportation Division, William Fogarty, Administrator	444-3423
Management Services Division, Andy Poole, Administrator	444-5432
Coordinator of Indian Affairs, Donald Clayborn, Coordinator	444-3702
Lottery Division, Diana Dowling, Director	444-5825

INSIDE COMMERCE

1424 9th Avenue
Helena, MT 59620

Please circulate INSIDE COMMERCE to your colleagues

Bulk Rate U.S. Postage P A I D Helena, MT Permit No. 202
